

State of Michigan

Neil De Koker

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Good morning, Chairman Schmidt. My name is Neil De Koker and I am president and CEO of the Original Equipment suppliers association. As part of MEMA, OESA represents 300 component manufacturers and nearly 100 service providers that support the North American passenger car and light truck assembly plants. I greatly appreciate the opportunity to share with Michigan House Commerce Committee the state of the supply base and some impressions our members have about doing business in the state of Michigan.

The supplier sector produces approximately two-thirds of the value of the vehicle. As such, the sector employs more people than the vehicle assemblers. Using the narrowest definition of auto supplier employment, 91,000 out of the 426,000 auto supplier jobs are located in the state of Michigan. From the employment trough in July 2009 (at 392,000 persons), 34,000 jobs have been added to the sector – 18,000 of which were added in Michigan. In comparison, vehicle manufacturers employ 36,000 employees in the state out of a US total of 153,000 persons. With an employment multiplier of 4.6, the

supplier sector is critical to the economic health of the US and Michigan economies.

And employment will continue to grow in the automotive sector. A full 42 percent of our members are looking to increase their hourly workforce by over 11 percent in 2011 as compared to 2010. And 11 percent of our members report that they will add more than 11 percent to their salaried workforce.

Our members are very conservative in regards to increasing headcount or capital up and beyond what they absolutely need to support the increase in North American production and prepare for the launch of 2012 model year vehicles. The memories of 2008 and 2009 are fresh. The industry took on a great deal of pain to significantly reduce structural costs and they are not ready to add back any unnecessary capital ^{unless} ~~that~~ they can make a clear and predictable return on invested capital.

In March of this year, we surveyed our manufacturing members about a variety of state-level issues. When asked about local business environment factors most influencing retention and expansion decisions, the top three factors identified were:

- labor availability, skill level and cost;
- logistics considerations and
- state business taxes

We also asked companies to rate their perception of the business climate in the five states where they have the highest employment levels. On a scale of 1 to 7 where 7 is the most positive,

- South Carolina was rated highest at 5.5
- Illinois received the lowest average rating at 3.1 and
- Michigan was rated at 3.7

Across all states, suppliers identify:

- uncompetitive tax rates,
- lack of education and/or training and access to a diverse talent pool,
- limited labor flexibility, and
- congested transportation infrastructures

as the greatest local, business environment barriers to their on-going success. At least from this survey, it appears the State of Michigan is prioritizing the right issues.

Our members identified many things the state is doing right, comments here included:

- Job training,
- Promoting advanced manufacturing,
- Tax abatements and tax credits,

- Providing road and investment incentives during an expansion
- The talent pool is positive, and
- Incentivizing R&D, unfortunately it is too narrowly focused on alternative power.

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Unfortunately, the experiences are not consistent as many of the positives are also identified as factors that are hindering doing business within the state. A few of the comments here included:

- An uncompetitive tax environment, minimal manufacturing incentives, minimal R&D incentives, slow development of talent pool;
- Tax system not organized and aligned to compete with other states. Requires another state's bid to get an offer of assistance;
- The labor climate;
- Bureaucracy and the inability to show consistency with decisions made when political owners change;
- Creating a negative environment for education, both K-12 and university; and
- Customers moving out of state.

The supplier industry continues to move through a historic transformation – we are supporting new global customers, innovating new product technologies, formulating new materials, and implementing new production processes.

The competitive dynamics are greater than ever. Suppliers are market tested daily against global alternatives – and that makes the industry one of the most productive sectors in the economy with manufacturing revenues well over \$225,000 per employee. As such, suppliers demand the best out of every resource and input they call on – including government. I welcome the opportunity to continue our dialog to better the working relationship between the Michigan state government and our industry. Thank you.